

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name: Salem Township	County Washtenaw County
Audit Date March 31, 2006	Opinion Date June 2, 2006	Date Accountant Report Submitted To State: September 5, 2006	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- | | |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132]) |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name): PLANTE & MORAN, PLLC			
Street Address 1000 Oakbrook Drive, Suite 400		City Ann Arbor	State MI
ZIP 48104			
Accountant Signature <i>Plante & Moran, PLLC</i>			

**Salem Township
Washtenaw County, Michigan**

**Financial Report
with Supplemental Information
March 31, 2006**

Salem Township

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Independent Auditor's Report

To the Board of Trustees
Salem Township
Washtenaw County, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Salem Township, Washtenaw County, Michigan (the "Township") as of and for the year ended March 31, 2006, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Salem Township's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Salem Township as of March 31, 2006 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and the budgetary comparison schedules, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

A member of



A worldwide association of independent accounting firms

To the Board of Trustees
Salem Township

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Salem Township's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Plante & Moreau, PLLC

June 2, 2006

Salem Township

Management's Discussion and Analysis

Our discussion and analysis of Salem Township, Michigan's financial performance provides an overview of the Township's financial activities for the fiscal year ended March 31, 2006. Please read it in conjunction with the Township's financial statements.

Financial Highlights

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlight for the year ended March 31, 2006:

- Total net assets related to the Township's governmental activities increased by approximately \$567,000.

Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of Salem Township as a whole and present a longer-term view of the Township's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the Township's operations in more detail than the government-wide financial statements by providing information about the Township's most significant funds. The fiduciary fund statements provide financial information about activities for which the Township acts solely as a trustee or agent for the benefit of those outside of the government.

Salem Township

Management's Discussion and Analysis (Continued)

Salem Township as a Whole

The following table shows, in a condensed format, the net assets as of the current date and compared to the prior year (in thousands of dollars):

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Assets						
Current assets	\$ 5,845	\$ 5,290	\$ 728	\$ 678	\$ 6,573	\$ 5,968
Noncurrent assets	2,059	2,095	3,924	3,928	5,983	6,023
Total assets	7,904	7,385	4,652	4,606	12,556	11,991
Liabilities						
Current liabilities	16	16	167	178	183	194
Long-term liabilities	12	-	2,020	2,190	2,032	2,190
Total liabilities	28	16	2,187	2,368	2,215	2,384
Net Assets						
Invested in capital assets -						
Net of related debt	2,058	2,095	344	248	2,402	2,343
Restricted	3	11	-	-	3	11
Unrestricted	5,815	5,263	2,121	1,990	7,936	7,253
Total net assets	<u>\$ 7,876</u>	<u>\$ 7,369</u>	<u>\$ 2,465</u>	<u>\$ 2,238</u>	<u>\$ 10,341</u>	<u>\$ 9,607</u>

Salem Township's combined net assets increased 6 percent from \$9.6 million to \$10.3 million this fiscal year. This was a result of two factors: one, a full fiscal year's payments of gas royalties received after the conclusion of the GRS lawsuit, and, secondly, the further reduction of long-term liabilities with regular payments to the bond program to pay for the sewer plant expansion. Overall, total liabilities decreased 7 percent during the year.

Unrestricted net assets - the part of net assets that can be used to finance day-to-day operations - increased by \$552,000 for the governmental activities. This represents an increase of 9 percent. The current level of unrestricted net assets for our governmental activities stands at \$5.815 million, giving the Township funding reserves that would cover the next three budget years.

Salem Township

Management's Discussion and Analysis (Continued)

The following table shows the changes in the net assets during the current year and as compared to the prior year (in thousands of dollars):

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Revenue						
Program revenue:						
Charges for services	\$ 172	\$ 145	\$ 106	\$ 102	\$ 278	\$ 247
Capital grants and contributions	2	27	71	136	73	163
General revenue:						
Landfill/host community fees	1,080	569	-	-	1,080	569
State-shared revenue	380	377	-	-	380	377
Unrestricted investment earnings	164	35	92	82	256	117
Franchise fees	42	38	-	-	42	38
Miscellaneous	31	17	-	-	31	17
Lawsuit settlement	-	2,102	-	-	-	2,102
Total revenue	1,871	3,310	269	320	2,140	3,630
Program Expenses						
General government	568	531	-	-	568	531
Public safety	385	356	-	-	385	356
Public works	171	44	-	-	171	44
Community and economic development	237	200	-	-	237	200
Recreation and culture	2	1	-	-	2	1
Water and sewer	-	-	208	213	208	213
Total program expenses	1,363	1,132	208	213	1,571	1,345
Change in Net Assets	\$ 508	\$ 2,178	\$ 61	\$ 107	\$ 569	\$ 2,285

Governmental Activities

Salem Township's total governmental revenues increased substantially due to the full-year effect of gas royalty monies with a net impact of over \$500,000. Additionally, with an increase in interest rates, the Township earned approximately \$130,000 more this fiscal year.

Although there were some projections at the beginning of the fiscal year that state revenue-sharing monies would be reduced, the Township saw state revenue-sharing remain steady from the prior year. As a result, the Township has exceeded its conservative budget estimates on state-shared revenue.

Salem Township

Management's Discussion and Analysis (Continued)

Due to the favorable improvement in revenue received, the Township budgeted additional funds for road maintenance during the year which had been reduced for prior fiscal years. Additional road maintenance, along with other site improvements and maintenance projects, increased overall expenditures \$230,000 from a year earlier.

Business-type Activities

Salem Township's business-type activity consists of the Sewer Fund. Sewage treatment for the hamlet is provided through a Salem Township-owned and operated sewage treatment plant. Compared to 2005, the Township had reduced revenue of \$51,000 or 16 percent. Charges for services decreased \$4,000, and capital grants and contributions were \$65,000 lower. This was due to a reduction in new tap fee revenue of 50 percent. In spite of these reduced revenues, the change in net assets for the Sewer Fund had a favorable increase of \$61,000.

Salem Township's Funds

The Salem Township Board creates funds to help manage money for specific purposes as well as to show accountability for certain activities. The Township's major funds are the General Fund and Sewer Fund. Additionally, the Township has an Agency Fund that handles escrow monies that are administered by the Building Department.

The General Fund pays for most of the Township's governmental services. A majority of the revenue funding comes from landfill/host community fees, gas royalty fees, and state revenue sharing. The most significant expenditures are for the fire department, police services contracted with Washtenaw County, and general government services operations.

General Fund Budgetary Highlights

With a conclusion of the litigation in early 2005 in favor of the Township and the resulting payment of over \$2,000,000 for gas royalty fees, the Township's cash resources exceeded \$5,000,000 at the beginning of the fiscal year. Over the course of the year, as the Federal Reserve increased interest rates, the Township gained significant additional revenues from interest earnings. This item, coupled with a better than expected revenue stream from gas royalties for the year, enabled the Township to receive revenues of approximately \$1.8 million.

With the improved revenue picture for the fiscal year, the Township allocated funds for necessary road maintenance projects. Six sections of gravel roads were improved with limestone and/or asphalt during the year as well as general grading and dust control that resulted in expenditures of approximately \$140,000.

Salem Township

Management's Discussion and Analysis (Continued)

Capital Asset and Debt Administration

The primary assets owned by the Township are the wastewater treatment facility, vacant land parcels in the Township, the town hall building, the fire department with vehicles, and equipment.

Economic Factors and Next Year's Budgets and Rates

For the upcoming year, the Township conservatively estimates expenditures of \$1.766 million including a contingency of almost \$140,000. If the income were to match what was received the past fiscal year, and the Township maintains the current level of expenditures, a favorable increase of \$250,000 is anticipated.

The issue of contracting police services with Washtenaw County escalated this year. Salem Township, along with two other townships, did not sign the four-year contract offered by the County. In order to protect the Township law enforcement services provided by the current deputy assigned to the Township, the Township entered into joint litigation to ensure coverage would continue, and attempt to lower the costs that the County is forcing on participating communities that contract for police services. This issue is still progressing through the legal process and a final determination may be issued by year end.

Contacting Salem Township's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the Township's finances and to show the Township's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the clerk's office.

Salem Township

Statement of Net Assets March 31, 2006

	Primary Government		
	Business-type		
	Governmental	Activities	Total
	Activities	(Sewer Fund)	
Assets			
Cash and cash equivalents (Note 3)	\$ 2,133,631	\$ 759,308	\$ 2,892,939
Investments (Note 3)	3,414,163	-	3,414,163
Receivables - Net:			
Landfill	128,419	-	128,419
Customers	-	31,382	31,382
Special assessments	-	1,393,888	1,393,888
Other	82,180	-	82,180
Internal balances (Note 5)	62,190	(62,190)	-
Prepaid costs and other assets	24,693	-	24,693
Nondepreciable capital assets (Note 4)	1,579,700	-	1,579,700
Depreciable capital assets - Net (Note 4)	478,712	2,529,670	3,008,382
Total assets	7,903,688	4,652,058	12,555,746
Liabilities			
Accounts payable	9,692	-	9,692
Accrued and other liabilities	6,223	1,673	7,896
Noncurrent liabilities (Note 6):			
Due within one year	-	165,000	165,000
Due in more than one year	11,780	2,020,000	2,031,780
Total liabilities	27,695	2,186,673	2,214,368
Net Assets			
Invested in capital assets - Net of related debt	2,058,412	344,670	2,403,082
Restricted - Village Green	2,809	-	2,809
Unrestricted	5,814,772	2,120,715	7,935,487
Total net assets	<u>\$ 7,875,993</u>	<u>\$ 2,465,385</u>	<u>\$ 10,341,378</u>

Salem Township

	Program Revenues		
	Charges for	Operating	Capital Grants
Expenses	Services	Grants and	and
		Contributions	Contributions
Functions/Programs			
Primary government:			
Governmental activities:			
General government	\$ 568,412	\$ 31,320	\$ -
Public safety	385,900	1,404	-
Public works	171,318	-	-
Community and economic development	237,152	138,969	-
Recreation and culture (Village Green)	1,606	-	2,005
Total governmental activities	1,364,388	171,693	2,005
Business-type activities - Sewer	208,222	106,206	70,750
Total primary government	<u>\$ 1,572,610</u>	<u>\$ 277,899</u>	<u>\$ 72,755</u>
General revenues:			
Landfill/Host community fees			
State-shared revenues			
Interest from customer assessments			
Unrestricted investment earnings			
Franchise fees			
Miscellaneous			
Total general revenues			
Change in Net Assets			
Net Assets - Beginning of year			
Net Assets - End of year			

Statement of Activities
Year Ended March 31, 2006

Net (Expense) Revenue and Changes in Net Assets

<u>Primary Government</u>		
<u>Governmental</u>	<u>Business-type</u>	
<u>Activities</u>	<u>Activities</u>	<u>Total</u>
\$ (537,092)	\$ -	\$ (537,092)
(384,496)	-	(384,496)
(171,318)	-	(171,318)
(98,183)	-	(98,183)
399	-	399
(1,190,690)	-	(1,190,690)
-	(31,266)	(31,266)
(1,190,690)	(31,266)	(1,221,956)
1,079,824	-	1,079,824
380,168	-	380,168
-	67,455	67,455
164,069	25,004	189,073
41,806	-	41,806
31,134	-	31,134
1,697,001	92,459	1,789,460
506,311	61,193	567,504
7,369,682	2,404,192	9,773,874
<u>\$ 7,875,993</u>	<u>\$ 2,465,385</u>	<u>\$ 10,341,378</u>

Salem Township

Governmental Fund General Fund Balance Sheet March 31, 2006

Assets

Cash and cash equivalents (Note 3)	\$ 2,133,631
Investments (Note 3)	3,414,163
Receivables - Net:	
Landfill	128,419
Other	82,180
Prepaid insurance	24,693
Due from Sewer Enterprise Fund (Note 5)	62,190
	<hr/>
Total assets	<u>\$ 5,845,276</u>

Liabilities and Fund Balances

Liabilities

Accounts payable	\$ 9,692
Other liabilities	<u>6,223</u>
Total liabilities	15,915

Fund Balances

Reserved:	
Prepaid expenditures	24,693
Village Green	2,809
Unreserved	<u>5,801,859</u>

 Total fund balances 5,829,361

 Total liabilities and fund balances **\$ 5,845,276**

Fund Balance - Governmental fund \$ 5,829,361

Amounts reported for governmental activities in the statement of net assets are different because:

 Capital assets used in governmental activities are not financial resources and are not reported in the funds 2,058,412

 Compensated absences are included as a liability (11,780)

 Net assets of governmental activities **\$ 7,875,993**

Salem Township

Governmental Fund General Fund Statement of Revenue, Expenditures, and Changes in Fund Balance Year Ended March 31, 2006

Revenue

Licenses and permits	\$ 127,864
State-shared revenues	380,168
Landfill/Host community fees (Note 7):	
Host fees	419,832
Gas royalties	618,685
Compost host fees	<u>41,307</u>
Total landfill/host community fees	1,079,824
Local sources	30,163
Interest and rentals	164,069
Other	<u>79,630</u>
Total revenue	1,861,718

Expenditures - Categorized by budget - Current

General government	796,755
Public safety	338,791
Public works	161,609
Capital improvements	<u>9,579</u>
Total expenditures	<u>1,306,734</u>

Excess of Revenue Over Expenditures - Net change in fund balance 554,984

Fund Balance - Beginning of year 5,274,377

Fund Balance - End of year \$ 5,829,361

Salem Township

Governmental Fund - General Fund Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Fund to the Statement of Activities Year Ended March 31, 2006

Net Change in Fund Balances - General Fund	\$ 554,984
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:

Depreciation	(55,558)
Capital outlay expenditures	18,665

Compensated absences are included as an expense	<u>(11,780)</u>
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Change in Net Assets of Governmental Activities	<u>\$ 506,311</u>
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Salem Township

Proprietary Fund Enterprise Fund - Sewer Fund Statement of Net Assets March 31, 2006

Assets

Current assets:

Cash and cash equivalents (Note 3)	\$ 759,308
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Receivables - Net:

Customers	31,382
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Special assessments	<u>1,393,888</u>
---------------------	------------------

Total current assets	2,184,578
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Noncurrent assets - Capital assets (Note 4)	<u>2,529,670</u>
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Total assets	4,714,248
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Liabilities

Current liabilities:

Accrued and other liabilities	1,673
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Due to General Fund (Note 5)	62,190
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Current portion of long-term debt (Note 6)	<u>165,000</u>
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Total current liabilities	228,863
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Noncurrent liabilities - Long-term debt - Net of current portion (Note 6)	<u>2,020,000</u>
---	------------------

Total liabilities	<u>2,248,863</u>
-------------------	------------------

Net Assets

Investment in capital assets - Net of related debt	344,670
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Unrestricted	<u>2,120,715</u>
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Total net assets	<u><u>\$ 2,465,385</u></u>
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Salem Township

Proprietary Fund Enterprise Fund - Sewer Fund Statement of Revenue, Expenses, and Changes in Net Assets Year Ended March 31, 2006

Operating Revenue - Sewage disposal charges	\$ 106,206
Operating Expenses	
Cost of sewage treatment	17,850
Maintenance	63,902
Billing and administrative costs	1,276
Depreciation	<u>68,568</u>
Total operating expenses	<u>151,596</u>
Operating Loss	(45,390)
Nonoperating Revenue (Expenses)	
Tap fees	70,750
Interest income	92,459
Interest expense	<u>(56,626)</u>
Change in Net Assets	61,193
Net Assets - Beginning of year	<u>2,404,192</u>
Net Assets - End of year	<u><u>\$ 2,465,385</u></u>

Salem Township

Proprietary Fund Enterprise Fund - Sewer Fund Statement of Cash Flows Year Ended March 31, 2006

Cash Flows from Operating Activities

Receipts from customers	\$ 102,442
Payments to suppliers	<u>(83,196)</u>
Net cash provided by operating activities	19,246

Cash Flows from Noncapital Financing Activities - Repayments to other funds

(8,799)

Cash Flows from Capital and Related Financing Activities

Collection of customer assessments (principal and interest)	169,088
Collection of connection fees	70,750
Principal and interest paid on capital debt	<u>(237,525)</u>

Net cash provided by capital and related
financing activities 2,313

Cash Flows from Investing Activities - Interest received on investments 25,004

Net Increase in Cash and Cash Equivalents 37,764

Cash and Cash Equivalents - Beginning of year 721,544

Cash and Cash Equivalents - End of year \$ 759,308

Reconciliation of Operating Loss to Net Cash from Operating Activities

Operating loss	\$ (45,390)
Adjustments to reconcile operating loss to net cash from operating activities:	
Depreciation and amortization	68,568
Changes in assets and liabilities:	
Receivables	(3,764)
Accounts payable	<u>(168)</u>
Net cash provided by operating activities	<u><u>\$ 19,246</u></u>

Noncash Investing, Capital, and Financing Activities - There were no noncash investing, capital, or financing activities during the year ended March 31, 2006.

Salem Township

Fiduciary Funds Agency Funds Statement of Assets and Liabilities March 31, 2006

Assets - Cash and cash equivalents (Note 3)	<u><u>\$ 191,857</u></u>
Liabilities	
Due to other governmental units	\$ 77,964
Refundable deposits	<u>113,893</u>
Total liabilities	<u><u>\$ 191,857</u></u>

Note I - Summary of Significant Accounting Policies

The accounting policies of Salem Township, Washtenaw County, Michigan (the "Township") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by Salem Township, Washtenaw County, Michigan:

Reporting Entity

Salem Township, Washtenaw County, Michigan is governed by an elected seven-member board of trustees. The accompanying financial statements present the Township's funds only as there are no component units which should be included in this reporting entity.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements.

Note I - Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Township considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The following major revenue sources meet the availability criterion: state-shared revenue and interest associated with the current fiscal period. Conversely, special assessments and federal grant reimbursements will be collected after the period of availability; receivables have been recorded for these, along with a "deferred revenue" liability.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

The Township reports the following major governmental fund:

General Fund - The General Fund is the Township's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Township reports the following major proprietary fund:

Sewer Fund - The Sewer Fund accounts for the activities of the sewage collection system.

Additionally, the Township reports the following fund type:

Agency Funds - The Agency Fund accounts for assets held by the Township in a trustee capacity. Agency Funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

Note 1 - Summary of Significant Accounting Policies (Continued)

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The Township has elected not to follow private sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the Township's sewer function and various other functions of the Township. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relates to charges to customers for sales and services. The Sewer Fund also recognizes the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Assets, Liabilities, and Net Assets or Equity

Bank Deposits and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances." All trade and property tax receivables are shown as net of allowance for uncollectible amounts.

Note 1 - Summary of Significant Accounting Policies (Continued)

Prepaid Items - Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Capital Assets - Capital assets, which include property, plant, and equipment, are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the Township as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Sewer building and systems	40 years
Buildings and improvements	20 years
Fire equipment	8 to 20 years
Office furnishings and equipment	5 to 10 years

Long-term Obligations - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Salem Township

Notes to Financial Statements March 31, 2006

Note 1 - Summary of Significant Accounting Policies (Continued)

Prior Period Adjustment - Beginning of year net assets in the Sewer Fund has been increased to account for a certain portion of special assessments receivable that was not recorded in a previous year. There is no impact on the current year change in net assets.

Total net assets as previously reported	\$ 2,238,592
Accounts receivable inadvertently omitted	<u>165,600</u>
Total net assets as restated	<u>\$ 2,404,192</u>

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Note 2 - Stewardship, Compliance, and Accountability

Construction Code Fees - The Township oversees building construction, in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The Township charges fees for these services. The law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the current year activity and the cumulative surplus or shortfall generated since January 1, 2000 is as follows:

Shortfall at April 1, 2005	\$ (11,472)
Current year building permit revenue	127,864
Related expenses:	
Direct costs	\$ 65,314
Estimated indirect costs	<u>75,006</u>
	<u>140,320</u>
Current year expenditures in excess of revenue	<u>(12,456)</u>
Shortfall at March 31, 2006	<u>\$ (23,928)</u>

Note 3 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Township has designated six banks for the deposit of its funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts and CDs; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; investment pools organized under the Surplus Funds Investment Pool Act, 1982 PA 367, MCL 129.111 to 129.118; and mutual funds which are legal for direct investment by local units of governments in Michigan. The Township's deposits and investment policies are in accordance with statutory authority.

The Township's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Township's deposits may not be returned to it. The Township does not have a deposit policy for custodial credit risk. At year end, the Township had \$4,165,754 of bank deposits (certificates of deposit, checking and savings accounts) that were uninsured and uncollateralized. The Township believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Township evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories. The Township has \$2,800,283 that is uninsured but collateralized with securities held by the pledging institution's agent but not in the Township's name.

Note 3 - Deposits and Investments (Continued)

Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The Township's investment policy does not restrict investment maturities, other than commercial paper which can only be purchased with a 270-day maturity. At year end, the average maturities of investments are as follows:

Investment	Fair Value	Maturity Date
Fifth/Third U.S. Gov't Bond	\$ 493,595	2/27/2009

Credit Risk

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The Township has no investment policy that would further limit its investment choices. As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

Investment	Fair Value	Rating	Rating Organization
Comerica investment pool	\$ 486,067	AI/PI	Moody's
Money market	44,080	AAA	S & P
Sweep accounts	79,313	NR	NR
MBIA investment pool	601,042	NR	NR
Bank One investment pool	34,894	NR	NR

Salem Township

Notes to Financial Statements March 31, 2006

Note 4 - Capital Assets

Capital asset activity of the Township's governmental and business-type activities was as follows:

	Balance April 1, 2005	Additions	Disposals and Adjustments	Balance March 31, 2006
Governmental Activities				
Capital assets not being depreciated -				
Land	\$ 1,579,700	\$ -	\$ -	\$ 1,579,700
Capital assets being depreciated:				
Buildings and improvements	84,900	8,981	-	93,881
Fire equipment	910,076	-	25,000	885,076
Office furnishings and equipment	44,748	9,684	6,000	48,432
Subtotal	1,039,724	18,665	31,000	1,027,389
Accumulated depreciation:				
Buildings and improvements	(32,127)	(5,112)	-	(37,239)
Fire equipment	(456,497)	(47,109)	(25,000)	(478,606)
Office furnishings and equipment	(35,495)	(3,337)	(6,000)	(32,832)
Subtotal	(524,119)	(55,558)	(31,000)	(548,677)
Net capital assets being depreciated	515,605	(36,893)	-	478,712
Net capital assets	<u>\$ 2,095,305</u>	<u>\$ (36,893)</u>	<u>\$ -</u>	<u>\$ 2,058,412</u>
Business-type Activities (Sewer Fund)				
Capital assets not being depreciated -				
Land	\$ 260,982	\$ -	\$ -	\$ 260,982
Capital assets being depreciated - Sewer				
buildings and systems	2,742,722	-	-	2,742,722
Accumulated depreciation - Sewer				
buildings and systems	(405,466)	(68,568)	-	(474,034)
Net capital assets being depreciated	2,337,256	(68,568)	-	2,268,688
Net capital assets	<u>\$ 2,598,238</u>	<u>\$ (68,568)</u>	<u>\$ -</u>	<u>\$ 2,529,670</u>

Salem Township

Notes to Financial Statements March 31, 2006

Note 4 - Capital Assets (Continued)

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:

General government	\$ 8,449
Public safety	<u>47,109</u>

Total governmental activities	<u>\$ 55,558</u>
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Note 5 - Interfund Receivables, Payables, and Transfers

Interfund balances result from the time lag between the dates that goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made.

Note 6 - Long-term Debt - Sewer Fund

Original Construction - In May 1995, the Township, in cooperation with Washtenaw County (the "County"), approved and began construction of a sanitary sewage disposal system for individuals within the Hamlet of Salem. On May 1, 1995, the Township entered into a lease agreement with the County relating to the system. Under this agreement, the County is responsible for construction and financing of the system through a bond program with the Michigan Municipal Bond Authority. The original lease amount of \$2,255,000 is equal to the total proceeds that may be drawn by the County. The Township will pay the County semiannual amounts sufficient to pay the debt service requirements and other related costs.

The Township will lease the system from the County and is required to operate, maintain, repair, insure, and manage the system for the County. Ownership of the system will be transferred at no cost to the Township after the bonds have been paid in full.

Salem Township

Notes to Financial Statements March 31, 2006

Note 6 - Long-term Debt - Sewer Fund (Continued)

As of March 31, 2006, the estimated future minimum lease payments are as follows:

<u>Years Ending March 31</u>	<u>Amount</u>
2007	\$ 133,688
2008	136,325
2009	133,850
2010	136,375
2011	133,788
2012-2016	673,662
2017	<u>102,250</u>
Total minimum lease payments	1,449,938
Less amount representing interest	<u>(174,938)</u>
Present value	<u>\$ 1,275,000</u>

The capital lease represents the financing of public improvements that benefited a specific district; this district is specially assessed, at least in part, for the cost of the sewer improvements. At March 31, 2006, the Township had approximately \$503,000 of special assessments receivable in the future related to this project.

2002/2003 Expansion - In May 2002, the Township entered into an agreement with the County to expand the Township's existing sewer system. Under this agreement, the County is responsible for construction and financing of the project through a bond program with the Michigan Municipal Bond Authority. The bond was issued in May 2002 for \$1,090,000. The Township has entered into a lease agreement equal to the total proceeds that will be drawn down by the County. The Township will pay the County semiannual amounts sufficient to pay the debt service requirements and other related costs.

Salem Township

Notes to Financial Statements March 31, 2006

Note 6 - Long-term Debt - Sewer Fund (Continued)

As of March 31, 2006, the estimated future minimum lease payments are as follows:

Years Ending March 31	Amount
2007	\$ 99,175
2008	97,015
2009	94,735
2010	92,365
2011	89,920
2012-2016	392,376
2017-2021	322,795
2022	56,375
Total minimum lease payments	1,244,756
Less amount representing interest	(334,756)
Present value	<u>\$ 910,000</u>

The capital lease represents the financing of public improvements that benefited a specific district; this district is specially assessed, at least in part, for the cost of the sewer improvements. At March 31, 2006, the Township had approximately \$891,000 of special assessments receivable in the future related to this project.

Note 7 - Landfill Agreement

In 1991, the Township entered into a host community agreement and lease with Onyx North America - Arbor Hills Landfill (Onyx), previously known as Browning-Ferris Industries (BFI) of Southeastern Michigan, Inc., covering a Township-owned landfill site. The Township receives quarterly lease renewal payments in return for leasing the site to Onyx for landfill operations. In addition, the Township receives monthly payments from Gas Recovery Systems equal to 50 percent of the revenue generated from the sale of landfill gases. For the year ended March 31, 2006, host revenue and gas royalties were \$419,832 and \$618,865, respectively.

Note 7 - Landfill Agreement (Continued)

In June 1996, the Township also entered into a host community agreement with Onyx covering a composting site. Total revenue for the year ended March 31, 2006 relating to this agreement was \$41,307.

State and federal laws and regulations require that a final cover be placed on the landfill site when it stops accepting waste and that certain maintenance and monitoring functions be performed at the site for 30 years after closure. Any costs associated with closure or postclosure care are the responsibility of Onyx. The Township is responsible for closure and postclosure care costs only in the event that Onyx and its parent are unable to provide for these costs. The financial statements do not reflect any adjustments that might be necessary in the event Onyx is unable to provide for closure and postclosure care costs.

Note 8 - Risk Management

The Township is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Township has purchased commercial insurance for medical benefit claims and participates in the Michigan Municipal League Liability and Property pool program for claims relating to property, torts, errors and omissions, and workers' compensation and the Michigan Townships Participating Plan for claims relating to firefighter disability and life claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts. The Michigan Townships Participating Plan operates as an insurance purchasing pool for local units of government in Michigan. The plan purchases commercial insurance on behalf of its members at a lower cost than would be available on an individual basis.

Note 9 - Defined Contribution Pension Plan

The Township provides pension benefits to certain employees through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate from the date of employment (or other date). As established by the adoption agreement, the Township contributes 10 percent of certain employees' gross earnings to the employee's account.

The Township's total payroll during the current year was \$457,545. The current year contribution was calculated based on covered payroll of approximately \$160,000, resulting in an employer contribution of \$15,908.

Required Supplemental Information

Salem Township

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended March 31, 2006

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Licenses and permits	\$ 112,500	\$ 112,500	\$ 127,864	\$ 15,364
State-shared revenues and grants	310,000	310,000	380,168	70,168
Landfill/Host community fees:				
Host fees	402,500	402,500	419,832	17,332
Gas royalties	600,000	600,000	618,685	18,685
Compost host fees	30,000	30,000	41,307	11,307
Total landfill/host community fees	1,032,500	1,032,500	1,079,824	47,324
Local sources	23,300	23,300	30,163	6,863
Interest income	46,000	46,000	164,069	118,069
Other revenue:				
Refunds and rebates	9,000	9,000	8,795	(205)
Charges for services	4,950	4,950	11,105	6,155
Cable television franchise	30,000	30,000	41,806	11,806
Other	14,722	14,722	17,924	3,202
Total other revenue	58,672	58,672	79,630	20,958
Total revenue	1,582,972	1,582,972	1,861,718	278,746
Expenditures				
General government:				
Township board:				
Salaries	23,812	23,812	22,113	1,699
Payroll taxes	1,822	1,822	1,718	104
Other	1,550	1,550	695	855
Total Township board	27,184	27,184	24,526	2,658
Supervisor:				
Salaries	31,666	31,666	31,666	-
Administrative assistant	36,606	36,606	36,259	347
Payroll taxes and benefits	11,416	11,416	11,539	(123)
Supplies and others	1,850	1,850	1,169	681
Total supervisor	81,538	81,538	80,633	905
Clerk:				
Salaries	31,666	31,666	31,666	-
Deputy clerk	25,000	25,000	18,775	6,225
Severance	5,000	5,000	3,240	1,760
Payroll taxes and benefits	4,335	4,335	3,891	444
Printing and supplies	200	200	-	200
Equipment	1,000	1,000	390	610
Other	9,100	9,100	5,213	3,887
Total clerk	76,301	76,301	63,175	13,126

Salem Township

Required Supplemental Information Budgetary Comparison Schedule - General Fund (Continued) Year Ended March 31, 2006

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Expenditures (Continued)				
General government (Continued):				
Treasurer:				
Salary	\$ 31,666	\$ 31,666	\$ 31,666	\$ -
Deputy treasurer	25,000	25,000	13,137	11,863
Payroll taxes and benefits	4,335	4,335	3,468	867
Tax statements	4,200	4,200	4,025	175
Equipment	1,000	1,000	-	1,000
Other	1,450	1,450	685	765
Total treasurer	67,651	67,651	52,981	14,670
Township hall and office:				
Salaries	4,500	4,500	7,609	(3,109)
Payroll taxes	345	345	329	16
Utilities	30,000	30,000	31,573	(1,573)
Equipment	20,000	20,000	11,713	8,287
Maintenance	61,000	61,000	54,091	6,909
Printing, postage, and supplies	29,500	29,500	23,783	5,717
Other	800	800	141	659
Total Township hall and office	146,145	146,145	129,239	16,906
Other:				
Election	37,271	37,271	16,928	20,343
Assessing	42,250	42,250	41,343	907
Zoning	60,783	60,783	56,517	4,266
Community development	120,447	148,197	133,226	14,971
Fringe benefits and insurance	57,500	57,500	52,119	5,381
Board of review	1,007	1,257	862	395
Board of appeals	2,010	2,010	1,207	803
Planning commission	33,119	33,119	16,897	16,222
Urban area committee	37,500	37,500	26,000	11,500
Accounting and audit	18,000	22,580	22,580	-
Legal services	55,000	90,000	62,695	27,305
Other	147,946	147,946	15,827	132,119
Total other	612,833	680,413	446,201	234,212
Total general government	1,011,652	1,079,232	796,755	282,477
Public safety:				
Fire department	259,720	259,720	252,661	7,059
Police department	88,500	88,500	86,130	2,370
Total public safety	348,220	348,220	338,791	9,429

Salem Township

Required Supplemental Information Budgetary Comparison Schedule - General Fund (Continued) Year Ended March 31, 2006

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Expenditures (Continued)				
Public works - Highways and streets	\$ 197,000	\$ 197,000	\$ 161,609	\$ 35,391
Capital improvements	<u>19,000</u>	<u>19,000</u>	<u>9,579</u>	<u>9,421</u>
Total expenditures	<u>1,575,872</u>	<u>1,643,452</u>	<u>1,306,734</u>	<u>336,718</u>
Excess of Revenue Over (Under) Expenditures	7,100	(60,480)	554,984	615,464
Fund Balances - Beginning of year	<u>5,274,377</u>	<u>5,274,377</u>	<u>5,274,377</u>	<u>-</u>
Fund Balances - End of year	<u>\$ 5,281,477</u>	<u>\$ 5,213,897</u>	<u>\$ 5,829,361</u>	<u>\$ 615,464</u>

Salem Township

Note to Required Supplemental Information March 31, 2006

Note - Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General Fund. All annual appropriations lapse at fiscal year end. The Township's fiscal year begins on April 1 and ends March 31. During the months of January and February, department heads are asked to provide spending requirements for the upcoming fiscal year. The clerk's department provides updated revenue and expenditure reports to enable the department heads to determine how well their expenditures are relative to the current proposed budget.

The supervisor is responsible for compiling the budget information and presenting it to the board. The treasurer assists in this process by providing revenue projections. A preliminary budget is presented to the board in February for review and input from the trustees. A public budget hearing, which is advertised in the local designated newspaper, is held in March to provide a forum for the citizens to make comments and provide their input. Subsequently, the board takes a formal vote to adopt the budget by cost centers or departments via the General Appropriations Act.

The budget document presents information by fund, function, department, and line items. The legal level of budgetary control adopted by the governing body is the department level.

Encumbrance accounting is employed in governmental funds. Amounts encumbered for purchase orders, contracts, etc. are not tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services rendered.

Excess of Expenditures Over Appropriations in Budgeted Funds - The Township did not have significant expenditure budget variances.

Other Supplemental Information

Salem Township

Other Supplemental Information Fiduciary Funds Statement of Assets and Liabilities March 31, 2006

	<u>Tax Collection</u>	<u>Escrow</u>	<u>Total</u>
Assets - Cash and cash equivalents	<u>\$ 77,964</u>	<u>\$ 113,893</u>	<u>\$ 191,857</u>
Liabilities			
Due to other governmental units	\$ 77,964	\$ -	\$ 77,964
Refundable deposits	<u>-</u>	<u>113,893</u>	<u>113,893</u>
Total liabilities	<u>\$ 77,964</u>	<u>\$ 113,893</u>	<u>\$ 191,857</u>



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June 22, 2006

To the Members of the Township
Board of Trustees
Salem Township
P.O. Box 75002
9600 Six Mile Road
Salem, MI 48175

Dear Board Members:

Reportable Condition

In planning and performing our audit of the financial statements of Salem Township for the year ended March 31, 2006, we considered the Township's internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. However, we noted one matter involving the internal control and its operation that we consider to be a reportable condition under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the Township's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The matter noted is the only one that came to our attention, and had our procedures in internal control related matters been more extensive, other matters may have been noted.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we noted the following reportable condition that we believe to be a material weakness.



A worldwide association of independent accounting firms

June 22, 2006

During the course of our audit, we noted that the listing of sewer accounts receivable was not being reconciled to the general ledger. We would like to note that the sewer accounts receivable procedures have improved from prior years; however, we now encourage the Township to continue to improve the process and reconcile the detail listing of accounts receivable to the general ledger for current and long-term receivables.

Bank Reconciliations

In prior years, we noted that bank reconciliations were not prepared timely and it was included as a material weakness in our management letter. In the current year, bank reconciliations were prepared timely and we feel that the process is no longer a material weakness. Adequate preparation of the bank reconciliations also includes the appropriate review of the reconciliation by an independent party. It is our understanding that the clerk reviews the monthly bank reconciliations; however, there is no indication of this review. We suggest that the preparer of the bank reconciliation initial and date the reconciliation on the date of completion and the clerk initial and date the reconciliation on the date of review.

Construction Code Fees

The Township oversees building construction in according with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The Township charges fees for these services and State law requires that this revenue be used only toward the payment of construction code costs, which can include an allocation of overhead costs. For the years ended March 31, 2006 and 2005, the direct and indirect costs exceeded the revenues collected by approximately \$12,000 and \$31,000, respectively, which created a cumulative shortfall related to construction code activity of approximately \$24,000 at March 31, 2006. The Township should evaluate the fee structure for construction code fees to ensure that the other General Fund revenues do not subsidize the construction activity.

To the Members of the Township
Board of Trustees
Salem Township

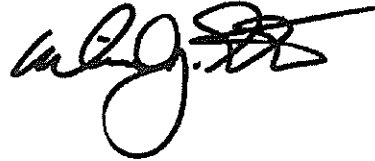
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June 22, 2006

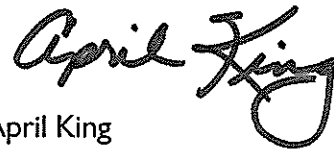
We would like to thank the Township and all those involved with the audit process for their assistance. If any questions arise upon reviewing the financial statements or on the above comments, we would be happy to discuss them with you. Thank you for the continued opportunity to be of service.

Very truly yours,

Plante & Moran, PLLC

A handwritten signature in black ink, appearing to read "Michael J. Swartz", with a stylized flourish at the end.

Michael J. Swartz

A handwritten signature in black ink, appearing to read "April King", with a stylized flourish at the end.

April King

MJS:bb